

AR09



CALGARY POWER LTD.

1978 ANNUAL REPORT

CALGARY POWER LTD.

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Shareholders – 99% Canada 33% Alberta

Registered holders of the Company's common and preferred shares increased 17% over the previous year to 28,790. Some 99% of the shareholders of record are in Canada and hold in excess of 99% of the outstanding shares. One-third of all shareholders of record are in Alberta.

Shareholders' Meeting

Shareholders are invited to attend the Annual and Special General Meeting to be held on Thursday, May 3, 1979 at 9:30 a.m. at the head office of the Company, 110 - 12 Avenue S.W., Calgary, Alberta. If you are unable to attend, please complete and return your proxy to assure representation at the meeting.

Cover

A regatta on Lake Wabamun where recreational activities co-exist with operations of the Wabamun Steam Electric Plant.

FINANCIAL RESULTS IN BRIEF

	1978	1977
Gross Revenue from Operations	\$ 266,002,000	\$ 211,649,000
Shareholders' Investment.....	\$ 654,106,000	\$ 525,956,000
Net Income	\$ 74,010,000	\$ 56,995,000
Capital Expenditures	\$ 185,259,000	\$ 198,574,000
Total Assets	\$1,325,847,000	\$1,172,309,000
Earnings Per Common Share	\$4.75	\$4.28
Dividends Declared Per Common Share	\$2.30	\$2.05

Gross Revenue from Operations

(Millions of Dollars)



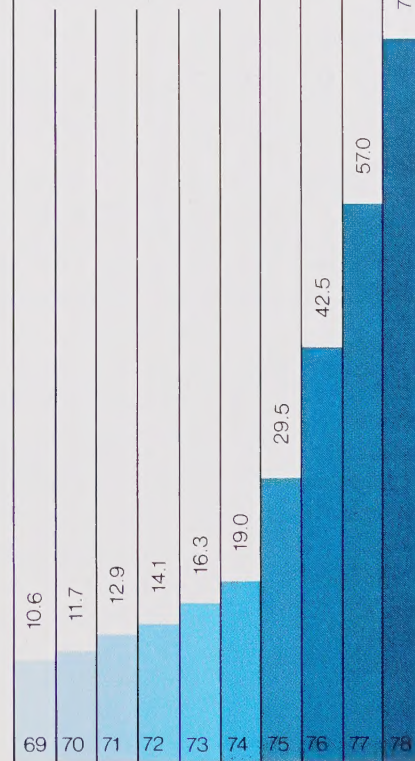
Shareholders' Investment

(Millions of Dollars)



Net Income

(Millions of Dollars)



Report to Shareholders

Significant achievement again marked the year under review. Energy sales, revenues, earnings, dividends and investment in facilities all increased to record high levels.

The Alberta economy continues to be stimulated by a strong energy sector, an expanding petrochemical industry and improved market prospects for agricultural products. Business activity in these areas and a rapidly growing population will continue to benefit construction and manufacturing as well as a wide variety of service industries. New and diversified opportunities will be provided for Albertans with corresponding prospects for the Company's operations.

A noteworthy event in 1978 was the opening of the oil sands project of Syncrude Canada Ltd., the largest industrial facility constructed to date in the Province. The utility plant which supplies electricity and steam on a cost of service basis to the Syncrude Project is jointly owned by Calgary Power Ltd. and Alberta Energy Company Ltd.

The Alberta oil sands contain some of the largest deposits of hydrocarbons in the world, the commercial development of which will contribute significantly toward self sufficiency of petroleum products in Canada. In addition to the two plants now in operation, applications have been made for other major oil sands projects.

Gross revenue increased 25.7% over 1977 while operating deductions were up 26.0%. Earnings per common share increased from \$4.28 to \$4.75. Regular dividends of \$2.30 were declared on Class A Common Shares and regular and "tax-deferred" dividends aggregating \$2.30, on Class B Common Shares. Commencing October 1, 1978 the

quarterly dividend was increased from 55¢ to 60¢ per common share.

The growth of earnings applicable to common shares is in keeping with the increased common shareholders' investment and the rate of earnings per dollar invested by the common shareholders found as fair by the Public Utilities Board. Approximately half of the earnings on common shares are reinvested to finance expansion of the business. Continuing input of such equity capital enables the Company to obtain lower cost preferred share and debt capital.

Capital expenditures were \$185.3 million for construction of new facilities compared to \$198.6 million in 1977 and \$207.5 million in 1976. Such expenditures are expected to be \$267.6 million in 1979 and to increase further in subsequent years. The Company raised \$125.0 million of additional capital during 1978 from external sources, principally in Canada, including a common share issue (\$58 million) to the public and a private placement of preferred shares (\$40 million) with institutional investors.

With the dramatic rise in prices for oil and natural gas it is evident that the long range program developed in the early 1950's for power supply based on coal was a prudent decision for both the Company and its customers. Very substantial coal reserves have been acquired in the intervening years. A number of Crown leases aggregating some 121,000 hectares (299,000 acres) were added this year. At the same time, the further use of renewable resources continues to be actively investigated. Over a period of years the Company has examined the hydro-electric potential of the Slave River in northern Alberta. The proposal by the Government of Alberta to proceed with further studies on the Slave River is viewed

with satisfaction. If the project proves feasible it is possible that the Company may have a significant role in its development.

Of major concern was the announcement in September that the Federal Government, as part of its cost reduction measures, intended unilaterally to repeal the Public Utilities Income Tax Transfer Act under which 95% of the federal income taxes paid by investor-owned electric, gas and steam utilities is transferred, or returned, to the respective provinces in which the taxes arose. There is certainly no disagreement with the efforts of any government to reduce its expenditures. However, it is important to understand that elimination of these transfers does not reduce Federal Government expenditures but rather results in increased taxation by the Federal Government, increased burden on consumers, added inflation and re-introduction of tax discrimination between investor-owned utilities and publicly-owned systems which pay no such income tax. In December, the Federal Government presented legislation to amend the Act by reducing the transfers from 95% to 50%. Although a 50% rebate can be said to be better than no rebate, it does not redress the discriminatory tax treatment for which the Act was specifically designed. The Government of Alberta has subsequently announced that it not only will continue to rebate 100% of the related provincial income tax but will do so on a current basis. This will partially overcome the adverse impact on consumers in Alberta.

A final decision of the Public Utilities Board (Alberta) approved, with minor reductions, the increased electricity rates implemented by the Company in 1977 and 1978. While the magnitude

of rate increases needed in the near term is more moderate, there is no magic that will allow the Company to provide reliable service and meet increased customer requirements at yesterday's prices. Accordingly, the Company filed another application in December for an average rate increase of 7½% during 1979 and a further increase of 5¾% in 1980. Although the cost of electricity has risen sharply, the Company continues to supply its customers at rates that compare favourably with other regions in Canada.

Electric energy sales increased 9.8% over 1977. While committed to meet the electricity requirements of its customers, the Company has embarked on an energy management and conservation program designed to eliminate waste and minimize energy use during peak load periods.

The fifth generating unit at the Sundance Steam Electric Plant began operations and a sixth unit is expected to be complete in late 1980. Preliminary work continued on the Keephills Steam Electric Plant to meet power requirements forecast for the early 1980's.

Main transmission lines of the Company presently operate at a maximum level of 240,000 volts. During 1978 applications were made to the Energy Resources Conservation Board (Alberta) for approval of three 500,000 volt lines as the initial step in the development of an extra high voltage transmission system in Alberta. Such a system would provide benefits in economies of supply to our consumers.

It is with deep regret that your Directors record the death in April of C. F. Mallory, a highly esteemed



Board of Directors. From left (seated) M. M. Williams, A. W. Howard, J. B. Cross, (standing) J. W. Madill, R. F. Phillips, D. D. Duncan, H. J. S. Pearson, W. J. Smith, R. G. Black, W. J. McCarthy, J. H. McLaughlin and A. S. Gordon.

Professional Engineer and a Director and Vice-President of the Company. J. H. McLaughlin, a Master Farmer and recognized agricultural authority, retired as a Director after more than 11 years of dedicated service. We were pleased to welcome two new Directors: W. J. Smith, Group Vice-President, Montreal Engineering Company, Limited and J. W. Madill, General Manager, Alberta Wheat Pool.

As in previous years the achievements and success this year are in no small measure due to the efforts of our staff. The Company is fortunate to have employees at all levels who possess talent, initiative, dedication and experience.

Major challenges facing the Company in the years ahead include its large construction program, incessant pressure from inflation and high interest rates, changes in government policies and the necessity for adequate rate relief. Power demands from the continued growth in population and the economy of the Province require additional sites for generating plants and transmission line rights-of-way, the acquisition of which is increasingly difficult. The era of "low cost" energy is now history. Year by

year business becomes more complex and costly and government and public involvement in all areas, including the environment, becomes more intense. On the brighter side, with capable staff, a sound provincial economy, the confidence of our investors and support of our customers, we approach the future with continuing optimism.

The foregoing together with the Operations and Financial Reports is submitted on behalf of the Board of Directors.

A. W. Howard
Chairman of the Board

M. M. Williams
President

February 14, 1979

Operations Report

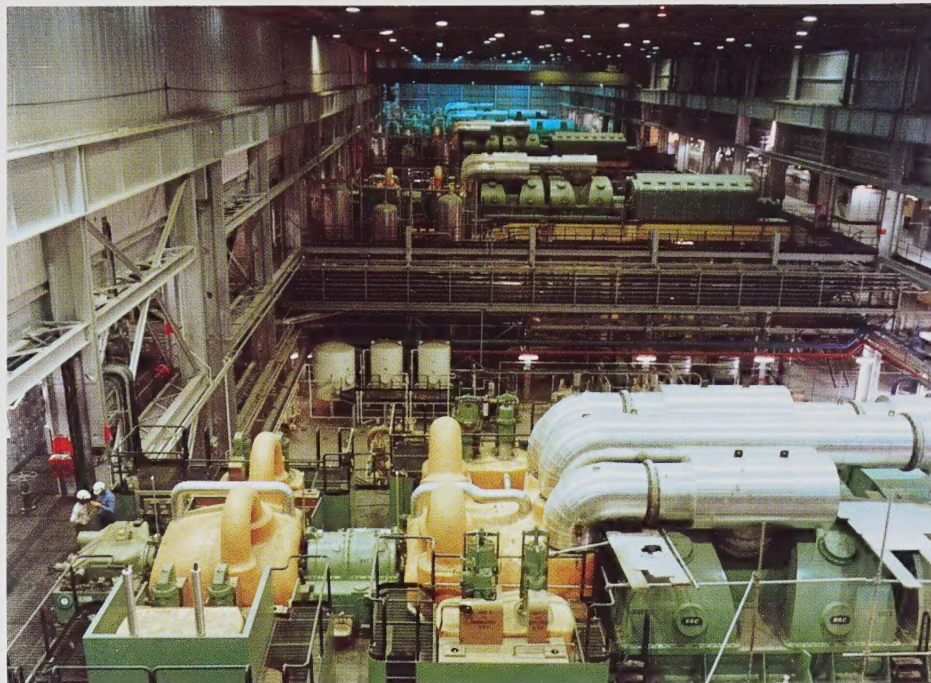
Operations and Customer Services

A peak load of 1,976,000 kilowatts was experienced during the 1978-1979 winter period. Primarily because of colder winter weather and increased industrial activity, electric energy sales increased 9.8% from 9,656 million kilowatt-hours in 1977 to 10,605 million kilowatt-hours.

The highest percentage increase (14.7%) occurred in town retail sales. Within this category residential consumption increased 16.6%. In addition to new customers in existing systems, the Company acquired the distribution facilities and some 1,000 customers at the Department of National Defence bases at Namao, Penhold, Ralston and Wainwright. New long term supply contracts were completed with six industries which will result in an additional load of some 42,000 kilowatts.

To provide improved customer service and reduced operating costs, the Company continued with the relocation of three major division headquarters from Edmonton to their respective service areas. Combined division and area work centre facilities have been located at St. Albert and Spruce Grove. Like facilities are under construction in Sherwood Park.

Over 90% of the electric energy in Alberta is generated from non-renewable resources. Albertans must recognize and accept the necessity



Sundance Steam Electric Plant, the largest coal-fired generating plant in Alberta and one of the largest in Canada. Turbine hall showing five generating units.

to use these plentiful resources judiciously. The Company has intensified its campaign to increase public awareness of the need for energy conservation and for effective load management, particularly during peak load periods. The Company is a member of the Utilities Technical Advisory Committee established by the Provincial Government to coordinate energy conservation programs in Alberta.

Generation and Transmission

Total net generating capability increased by 352,000 kilowatts to 2,997,000 kilowatts with the commissioning of the fifth unit at the Sundance Steam Electric Plant. Construction continued on the sixth unit and despite some delays due to strikes, completion is expected late in 1980.

Final designs, land acquisition and site preparation were the major activities related to construction of the new coal-fired Keephills Steam Electric Plant located approximately 64 kilometres (40 miles) southwest of Edmonton and 10 kilometres (6

miles) southeast of the Sundance Plant. Two units having a nominal rating of 375,000 kilowatts each are presently scheduled for commissioning in 1983 and 1984, respectively. A preliminary feasibility study has been initiated regarding additional generating units at this plant to meet anticipated increased demand for electricity in the late 1980's and early 1990's.

The Energy Resources Conservation Board of Alberta (the "ERCB") held public hearings on applications for coal-fired generating plants at Genesee by Edmonton Power and at Sheerness by Alberta Power Limited. At both hearings Calgary Power advocated the concept of joint participation in projects to supply requirements forecast for the mid-1980's.

To provide long-term benefits for its customers through relatively stable fuel prices, the Company is aggressively pursuing the acquisition of Crown coal leases in the area of potential thermal power plant sites.

During the year coal leases totalling an additional 121,000 hectares (299,000 acres) were acquired or reserved for assessment and possible development.

Planning future generation and transmission facilities to meet increasing demand is an important and continuing part of internal operations supported by independent consultants as required. The Company also actively participates in planning on an inter-utility basis through the Electric Utility Planning Council.

The role of hydro-electric generation for future energy supply continues to be assessed. Aerial photography of the Slave River from the mouth of the Peace River to Fort Smith was completed and five water level recording stations were installed as part of ongoing investigations into the possible construction of a dam and hydro-electric generating station near Fort Smith. Feasibility studies were commissioned to evaluate the development of low head hydro-electric generation on water impoundment facilities related to irrigation projects in southern Alberta. Application for a water power license has been made in connection with the proposed Dickson Dam on the Red Deer River. Harnessing the renewable energy potential of such projects, either when the dams are built or by ensuring that provision is made for possible future installation of hydraulic turbines, is part of the Company's policy for efficient use of Alberta's resources.

A wide variety of pamphlets encouraging energy conservation and load management have been made available to customers.

Applications were made to the ERCB for approval of two 500,000 volt transmission lines from the Keephills Plant to the Edmonton area and one from Calgary to an interconnection with British Columbia Hydro and Power Authority at the provincial boundary in the Crowsnest Pass area of southwestern Alberta. It is hoped that regulatory approvals will be received by late 1979. This will ultimately lead to the development of an EHV (extra high voltage) transmission system in Alberta to achieve such benefits as economies of scale, reduced losses and more efficient use of rights-of-way.

Notwithstanding approval by the ERCB, construction of a major transmission line to augment service to southern Alberta has been further delayed because of legal proceedings by a few landowners along the route of the line. By holding the small Lethbridge Plant ready for emergency use and appropriate scheduling of line crews, the Company endeavours to minimize the impact of any power deficiency that could occur.

Environment

Increasingly complex approval processes and delays in obtaining permits for urgently required facilities, sometimes followed by prolonged appeals to the courts, not only threaten quality and reliability of service but add substantially to costs borne by customers. To assist in minimizing this problem at the Keephills Plant, formation of a community steering committee was fostered to work closely with the Company in making recommendations on matters directly affecting the farming community and the hamlet. Such cooperation maximizes benefits and minimizes personal disruptions while accommodating a development designed to serve the public.

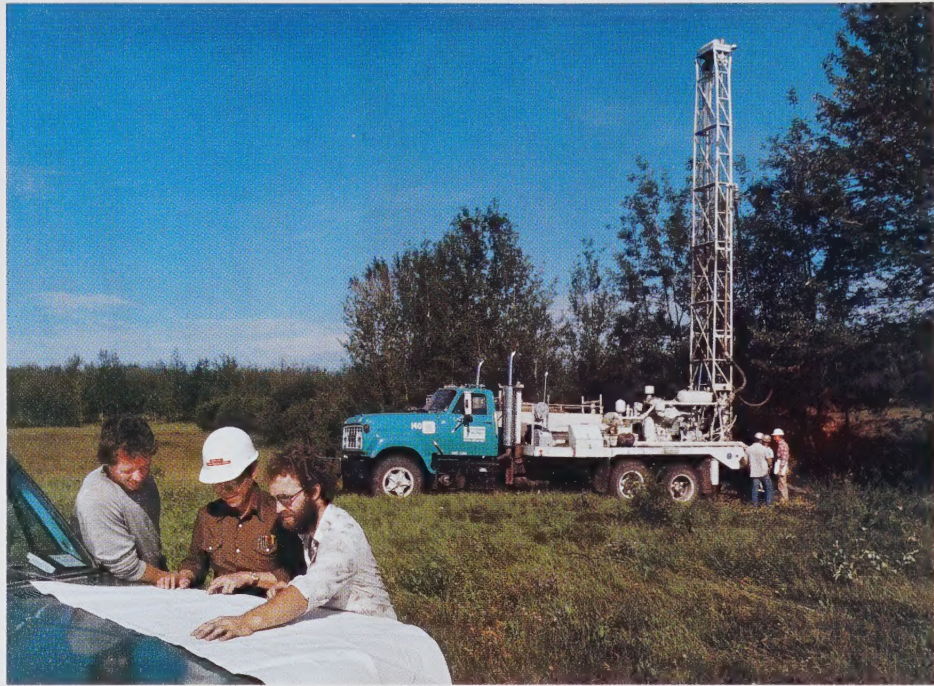


The Wabamun Land Use Advisory Committee, a regional citizens group also formed with encouragement from the Company, spent two years considering post-mining use and disposition of reclaimed coal mine lands at the Wabamun and Sundance Plants. The Company endorsed and subsequently forwarded to the Provincial Government more than 20 recommendations of this committee. A 30-year reclamation plan for the coal mine supplying the Wabamun Plant is being developed based on the committee's proposals.

Land reclamation programs continued at the coal mines. An additional 43 hectares (106 acres) were newly seeded to grass and legumes. Barley, oats and alfalfa crops were grown and livestock grazed on previously reclaimed mine spoil.

Reclamation research continued at the two operating mines and at the site of the deferred Camrose-Riley project. Other resource owners at the sites of our potential future thermal plants are being encouraged to establish research programs well in advance of planned development. Possible delays may be avoided by demonstrating their ability to meet land surface conservation and reclamation standards.

The seasonal weed abatement program in Lake Wabamun continued as a consulting firm completed a five-year study to evaluate what



An active exploration program has established proven coal reserves in excess of 435 million tonnes (480 million tons) sufficient to supply estimated requirements for the Wabamun, Sundance and Keephills Plants for at least 25 years.

relationship, if any, the thermal discharge from the Wabamun Plant has on weed growth in the lake. A significant reduction in weed growth occurred over this period. Findings of the study and recommendations will be submitted to the ERCB during 1979. A public participation program was initiated to keep local residents informed regarding alternate cooling systems and the results of the study.

Staff

The Company's employee retirement pension plan was revised in 1978 to provide increased pensions to employees retiring at age 65. Less liberal early retirement provisions were incorporated in the revised basic plan, while a voluntary supplementary plan is being introduced in 1979 to provide an opportunity for a majority of those employees wishing to plan financially for early retirement. As a result, the unfunded liability has increased by approximately \$1.1 million which is being amortized over a period of 15 years. The total cost increase for these changes is estimated to be about 1.3% of payroll.

Collective agreements with the Employees' Association and the International Brotherhood of Electrical Workers, which provide compensation increases within the Anti-Inflation Board guidelines, were renewed for one year. A dental insurance plan was introduced with the Company sharing the premium equally with employees.

Financial Report

Revenue, Expenses and Earnings

Gross revenue from operations totalled \$266.0 million, \$54.4 million or 25.7% above 1977 revenue. Approximately one-third of this increase resulted from additional electric load and the balance from higher rates. Consolidated operating expenses, depreciation and income and other taxes amounted to \$169.5 million. \$76.3 million in operating expenses, \$54.1 million in income taxes and \$39.1 million from higher depreciation expense on the growing property investment accounted for the increase of 26.0% in these items.

Earnings applicable to common shares were \$54.9 million or \$4.75 per common share. This increase of \$13.9 million or 47¢ per common share over the previous year was in line with the growth in common shareholders' average investment. After payment of dividends on common shares aggregating \$26.5 million, the balance of \$28.4 million (\$2.45 per common share) was retained for use in the business.

Capital Program

Capital expenditures remained high at \$185.3 million, of which \$76.6 million was spent on new generating facilities and \$80.6 million on expansion of transmission, substation and distribution systems. Major projects included completion of the fifth generating unit at the Sundance Steam Electric Plant and continued construction of the sixth unit. Expenditures related to environmental control facilities amounted to \$28.1 million.



Syncrude utilities plant, owned and operated by AEC Power Ltd., supplies electricity and steam for production of synthetic crude oil. AEC Power Ltd. is jointly owned by Calgary Power Ltd. and Alberta Energy Company Ltd.

Investment in such facilities now amounts to \$148.1 million which represents some 11.2% of assets. Capital expenditures in 1979 are expected to be about \$267.6 million and to grow more rapidly in future years.

Financing

\$125.0 million of additional capital was raised from external sources. In May, an offering of Class A Common Shares was made to the public in Canada when 1,540,000 shares were issued raising some \$58 million of new common equity capital. In August, a private placement of \$40 million 7.30% First Preferred Shares was arranged with institutional investors in Canada. Funds aggregating \$18.2 million were drawn down on previously arranged export credit financing on offshore equipment purchases and a lease agreement for a dragline.

An appropriate capital structure of about 45% debt, 20% preferred shares and 35% common equity was attained. As a result, coverages reached a sound position with net

earnings before income taxes at 4.1 times interest.

Income Tax Rebate

In September the Federal Government announced as part of its cost reduction measures its intention to eliminate transfers under the Public Utilities Income Tax Transfer Act by repealing the Act. The income tax rebate program began in 1947 when some 50% of the federal income tax paid by investor-owned utilities was returned to provinces in which the tax arose. In 1965 the rebate was increased to 95% of the income tax to remove the discriminatory tax burden on customers of investor-owned utilities as part of tax sharing arrangements between the Federal Government and the provincial governments concerned. In Alberta, monies received from the Federal Government together with 100% of the provincial income tax are returned to customers as a reduction of utility bills.

Termination or reduction of the federal program results in correspondingly higher power bills for customers of investor-owned utilities and discrimination between such customers and those of publicly-owned systems. Although the Company's revenues will not be directly affected, discontinuation or reduction of the tax transfer does not represent in our view a reduction in government expenditure. Rather, customers of investor-owned utilities are penalized inasmuch as increased taxes in effect are collected from such customers and no similar tax is proposed on customers of government-owned utilities. The Federal Government was urged to reconsider its position and the Company's representations were supported by the utility industry and many other interested parties.

Notwithstanding these representations, legislation was tabled in the House of Commons in December to reduce the transfers from 95% to 50%. We are disappointed with this reduction in the transfers, but pleased that the Federal Government appears to have recognized that the rebate program should not be terminated. The Company is convinced that the reasons for increasing the rebate program from 50% to 95% in 1965 are equally valid today and will continue to press those views at both the federal and the provincial level.

Reinvestment Date	Amount Reinvested	Number of Shareholders Participating
1976 — July.....	\$ 234,000	984
October.....	265,000	1,172
1977 — January.....	302,000	1,429
April.....	330,000	1,700
July.....	424,000	1,996
October.....	720,000	2,080
1978 — January.....	956,000	2,395
April.....	1,058,000	2,581
July.....	1,442,000	3,118
October.....	2,021,000	3,699
1979 — January.....	2,363,000	3,897

Participation in the dividend reinvestment and share purchase plan introduced by the Company in 1976 continues to increase significantly.

Rate Regulation

The Public Utilities Board of Alberta (the "Board") issued a final decision fixing the Company's rates for 1977 and 1978 with only minor changes in the interim rates previously implemented. The Board approved a rate of return on rate base of 10.77% in respect of 1978 which includes an allowance of 14.5% on common shareholders' equity deemed to be invested in rate base.

A new rate application for revised rates has been filed covering 1979 and 1980. Average rate increases of 7½% during 1979 and a further 5¾% in 1980 have been proposed. A rate of return on rate base of 10.94% is being sought for 1979 and 10.99% for 1980. The requested returns include an allowance of 14.5% on common shareholders' equity. With Board approval, interim rates averaging an additional 7½% and designed to provide the estimated revenue requirement for 1979 are being implemented on March 1, 1979. These rates are subject to refund and adjustment on final determination by the Board of required levels of revenue and fairness of rates as between classes of consumers.

Applications to the Board for increases in water rates on water utility operations in Camrose, Lacombe and Wetaskiwin were filed late in 1977. The Board rendered a decision essentially approving the rates sought by the Company.

It has been well established that utility earnings must be sufficient to attract necessary capital and rates must be adequate to provide required revenue. Although a number of factors have contributed, such as a prosperous provincial economy and a continuing growth in load, the regulatory climate in Alberta has been conducive to financing the system expansion at reasonable cost. The relatively low cash flow and the perennial need to seek increasing amounts of capital from external sources are of real concern. The Company seeks to improve its cash flow and has strengthened its financial position through a larger component of equity capital and stronger protection of interest and dividend payments, so that it can continue to meet its large financing requirements. The Board has been responsive to the needs of utilities during a period of rapid price increases thereby protecting the interest of both consumers and investors.

Financial Statements

Assets (millions of dollars) 1958 - 1978



Spray Hydro-electric Plant

CALGARY POWER LTD.

(Incorporated as a public company under the laws of Canada)

Consolidated Balance Sheet

December 31, 1978 and 1977

Assets

Property Account:

	1978 (thousands of dollars)	1977
Land, buildings, plant and equipment at cost	\$1,460,023	\$1,276,586
Less accumulated depreciation	250,120	211,135
	<u>1,209,903</u>	<u>1,065,451</u>
Investment in AEC Power Ltd.	<u>10,198</u>	<u>10,167</u>

Current Assets:

Cash	92	112
Short term deposits	24,200	39,500
Accounts receivable	31,553	23,291
Materials and supplies at average cost	14,003	16,899
Prepaid expenses	847	548
	<u>70,695</u>	<u>80,350</u>

Deferred Charges:

Financing costs less amortization	34,837	15,983
Other	214	358
	<u>35,051</u>	<u>16,341</u>

	<u>\$1,325,847</u>	<u>\$1,172,309</u>
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Auditors' Report

To the Shareholders of
Calgary Power Ltd.

We have examined the consolidated balance sheet of Calgary Power Ltd. and the consolidated statements of long term debt and capital stock as at December 31, 1978 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles which, except for the change in the method of translating foreign currencies explained in the Summary of Accounting Policies, have been applied on a basis consistent with that of the preceding year.

Calgary, Canada
February 8, 1979

CLARKSON, GORDON & CO.
Chartered Accountants

Liabilities

	1978	1977
	(thousands of dollars)	
Shareholders' Equity:		
Common shares.....	\$ 216,170	\$ 152,945
Contributed surplus	1,669	1,239
Reserve for rate adjustments	1,804	2,120
Retained earnings.....	183,862	155,498
Total common shareholders' equity	403,505	311,802
Preferred shares	250,601	214,154
Total shareholders' equity	654,106	525,956
Long Term Debt	474,906	458,300
Current Liabilities:		
Bank loan and short term notes.....	6,444	6,866
Accounts payable and accrued charges.....	30,069	44,341
Income and other taxes payable	17,592	16,909
Dividends payable.....	12,532	9,980
Accrued interest on long term debt	8,750	8,505
Consumers' deposits	418	503
Current portion of long term debt	22,087	13,500
	97,892	100,604
Deferred Credits:		
Deferred income taxes	42,039	42,099
Customer contributions.....	52,525	40,864
Hydro development contribution	4,379	4,486
	98,943	87,449
	<u>\$1,325,847</u>	<u>\$1,172,309</u>

On behalf of the Board:

A. W. HOWARD, Director

H. J. S. PEARSON, Director

(See accompanying summary of accounting policies and notes)

CALGARY POWER LTD.

Consolidated Statement of Income

Years Ended December 31, 1978 and 1977

	1978 (thousands of dollars)	1977
Gross revenue from operations:		
Electric	\$263,578	\$209,999
Water utilities	2,424	1,650
	266,002	211,649
Operating deductions:		
Operating expenses	55,601	48,824
Fuel and purchased power	11,565	7,362
Taxes, other than taxes on income	9,108	7,759
Depreciation	39,089	33,168
Taxes on income	54,098	37,397
	169,461	134,510
Operating income	96,541	77,139
Allowance for funds used during construction by component:		
Debt	6,421	6,281
Preferred equity	3,147	2,784
Common equity	7,570	6,863
Total allowance for funds used during construction	17,138	15,928
Equity in net income of AEC Power Ltd.	1,543	1,343
Income before interest charges	115,222	94,410
Interest charges:		
Interest on first mortgage bonds	17,098	12,743
Interest on other long term debt	25,729	21,279
Other interest (net)	(1,615)	3,393
	41,212	37,415
Net income for the year	74,010	56,995
Dividends on preferred shares adjusted for accruals	19,077	15,952
Earnings applicable to common shares	\$ 54,933	\$ 41,043
Basic earnings per common share	\$4.75	\$4.28

Consolidated Statement of Retained Earnings

Years Ended December 31, 1978 and 1977

	1978 (thousands of dollars)	1977
Balance at beginning of year	\$155,498	\$134,680
Net income for the year	74,010	56,995
	229,508	191,675
Deduct dividends:		
Preferred shares	19,135	16,220
Common shares	26,511	19,957
	45,646	36,177
Balance at end of year	\$183,862	\$155,498

(See accompanying summary of accounting policies and notes)

Consolidated Statement of Changes in Financial Position

Years Ended December 31, 1978 and 1977

1978
(thousands of dollars)

1977

Source of Funds:

From operations —

Net income for the year	\$ 74,010	\$ 56,995
Add (deduct) items not involving funds:		
Depreciation	39,089	33,168
Allowance for equity funds used during construction	(10,717)	(9,647)
Equity in net income of AEC Power Ltd.	(1,543)	(1,343)
Other	2,298	813
Funds provided from operations	103,137	79,986
Issue of common shares	63,225	38,375
Issue of first preferred shares	43,500	59,500
Issue of long term debt:		
First mortgage bonds	—	53,829
Notes payable — secured	13,331	15,275
Secured debentures	—	76
Other	7,365	15,958
Customer contributions	13,272	11,187
Dividends and advances from AEC Power Ltd.	1,512	—
Other	198	301
	<u>\$245,540</u>	<u>\$274,487</u>

Application of Funds:

Capital expenditures:

Production	\$ 76,559	\$125,401
Environmental	28,114	18,897
Transmission, substations, distribution and other	80,586	54,276
	185,259	198,574
Less allowance for equity funds used during construction	10,717	9,647
	174,542	188,927
Dividends on preferred shares	19,135	16,220
Dividends on common shares	26,511	19,957
Financing costs	3,155	1,651
Reduction of preferred shares	7,053	4,384
Retirement of long term debt	13,500	9,623
Decrease in bank loan and short term notes	422	7,591
Decrease in working capital deficiency exclusive of changes in bank loan and short term notes and current portion of long term debt	1,222	26,134
	<u>\$245,540</u>	<u>\$274,487</u>

(See accompanying summary of accounting policies and notes)

Statement of Long Term Debt

December 31, 1978 and 1977

Long Term Debt Summary

	1978 (thousands of dollars)	1977 (thousands of dollars)
First mortgage bonds.....	\$207,915	\$206,154
Notes payable — secured	81,628	61,025
Secured debentures.....	162,000	165,992
Notes payable — other	17,715	16,765
Capitalized lease obligation.....	20,144	14,300
Sundry indebtedness.....	7,591	7,564
	<u>496,993</u>	<u>471,800</u>
Less current portion.....	<u>22,087</u>	<u>13,500</u>
	<u>\$474,906</u>	<u>\$458,300</u>

First Mortgage Bonds

	1978 (thousands of dollars)	1977 (thousands of dollars)
5 ½% Series due 1978	\$ —	\$ 3,700
4 % Series due 1979	3,165	3,165
5 ¾% Series due 1981	9,400	9,400
8 ¾% Series due 1981	11,500	11,500
5 ¾% Series due 1982	8,000	8,000
9 ¾% Series due 1982	20,000	20,000
5 ¾% Series due 1983	9,000	9,000
5 ⅝% Series due 1984	7,000	7,000
6 % Series due 1985	8,560	8,560
7 ½% Series due 1988	12,000	12,000
7 ⅞% Series due 1989	5,000	5,000
8 ½% Series due 1993	25,000	25,000
9 ⅛% Series due 1994	30,000	30,000
8 ½% Series due 2002 (U.S. \$50,000,000)	59,290	53,829
	<u>\$207,915</u>	<u>\$206,154</u>

The first mortgage bonds are secured by a first and specific mortgage and charge upon certain of the Company's lands, buildings, plant and equipment and by a first floating charge upon all other assets situated in the Province of Alberta. The Trust Deed securing the issues provides for a sinking fund for the retirement of first mortgage bonds payable on September 1 each year of 1% of the original principal amount of first mortgage bonds previously issued.

Notes Payable - Secured

	1978 (thousands of dollars)	1977 (thousands of dollars)
5½%, 6% and 7% Series due 1979 to 1987 (Payable in sterling — £23,172,000; 1977 — £21,909,000).....	\$56,124	\$44,202
6% and 7% Series due 1979 to 1984 (Payable in U.S. dollars — \$21,507,000; 1977 — \$16,545,000)	25,504	16,823
	<u>\$81,628</u>	<u>\$61,025</u>

These notes have no authorized limit and are fully secured by first mortgage bonds.

(See accompanying summary of accounting policies and notes)

Secured Debentures

	1978 (thousands of dollars)	1977 (thousands of dollars)
Series A — maturing one to five years at interest rates varying from 8¾% to 11½%		
Due 1978.....	\$ —	\$ 542
Due 1979.....	11,075	11,075
Due 1980.....	444	444
Due 1981.....	405	405
Due 1982.....	76	76
	<u>12,000</u>	<u>12,542</u>
Series B — 9¾% due 1990.....	19,000	19,200
Series C — 8 % due 1992.....	24,000	24,250
Series D — 7⅝% due 1978.....	—	3,000
— 7¾% due 1980.....	7,000	7,000
Series E — 10½% due 2000.....	60,000	60,000
Series F — 10¾% due 2001.....	40,000	40,000
	<u>\$162,000</u>	<u>\$165,992</u>

The debentures are secured by a floating charge on the property and assets of the Company subject to the first and specific mortgage and charge and first floating charge securing the first mortgage bonds. The Trust Indenture securing the issue provides for sinking funds for the retirement of certain series at varying rates.

Notes Payable - Other

	1978 (thousands of dollars)	1977 (thousands of dollars)
1979.....	\$ —	\$ 2,670
1980.....	3,480	3,480
1981.....	2,485	2,485
1982.....	3,625	3,625
1983.....	4,505	4,505
1984.....	3,620	—
	<u>\$17,715</u>	<u>\$16,765</u>

These notes, which are unsecured and have no authorized limit, bear interest determined at June 30 and December 31 of each year, at the greater of the prevailing prime bank interest rate or the five year bank term deposit rate (11½% at December 31, 1978) and mature December 31, in each year. These amounts are payable to rural electrification co-operative associations through their agent Farm Electric Services Ltd. and represent a portion of funds contributed by members of these associations which have been invested with the approval of the Alberta Director of Co-operative Activities.

Capitalized Lease Obligation

The Company leases with an option to purchase, a dragline costing \$20,144,000. The cost of this equipment is included in the plant account and the related liability is included in long term debt to reflect the effective acquisition and financing of the equipment. The future minimum payments under the capitalized lease and the present value of future minimum rentals are as follows:

	(thousands of dollars)
1979.....	\$ 1,965
1980.....	1,861
1981.....	1,861
1982.....	1,861
1983.....	1,861
Later years.....	24,375
	<u>33,784</u>
Less amount representing interest	13,640
	<u>20,144</u>
Less current portion	695
	<u>\$19,449</u>

(See accompanying summary of accounting policies and notes)

Annual Requirements

The annual requirements for sinking fund and for repayment of maturing issues of currently outstanding long term debt for each of the following years is:

Year ended December 31	Annual Requirement (thousands of dollars)	
	Sinking Fund	Maturing Issues
1979.....	\$1,050	\$20,342
1980.....	1,840	18,086
1981.....	4,724	39,354
1982.....	4,974	48,977
1983.....	4,974	30,124

Sinking fund requirements have been reduced by bonds purchased and cancelled to meet annual requirements. The requirements shown for maturing issues will be reduced to the extent of purchases of these issues for sinking fund purposes.

Statement of Capital Stock

December 31, 1978 and 1977

Common Shares

	Shares issued and outstanding		Amount	
	1978	1977	1978	1977
			(thousands of dollars)	
Authorized — 20,000,000 shares of no par value				
— Class A shares.....	11,730,650	10,063,214	\$205,680	\$144,677
— Class B shares.....	598,240	575,057	10,490	8,268
	<u>12,328,890</u>	<u>10,638,271</u>	<u>\$216,170</u>	<u>\$152,945</u>
Issued during the year				
For cash.....	1,540,000	1,200,000	\$ 57,750	\$ 36,600
For cash under the Dividend Reinvestment and Share Purchase Plan	150,619	54,565	5,475	1,775
	<u>1,690,619</u>	<u>1,254,565</u>	<u>\$ 63,225</u>	<u>\$ 38,375</u>

The Class A and Class B common shares are interconvertible at any time on a share-for-share basis, carry one vote per share and the total Class A and Class B common shares issued and outstanding at any one time may not exceed 20,000,000 shares. Prior to December 31, 1978 regular dividends were paid on the Class A common shares and tax-deferred dividends were paid on the Class B common shares. The right to pay tax deferred dividends expired on December 31, 1978.

(See accompanying summary of accounting policies and notes)

Preferred Shares

	Annual requirement	Shares issued and outstanding		Amount	
		1978	1977	1978	1977
(thousands of dollars)					
First preferred shares of \$100 each: Authorized — 3,000,000 cumulative redeemable preferred shares					
NO PURCHASE OR SINKING FUND					
4 % Series	—	38,853	44,256	\$ 3,885	\$ 4,425
4 ½% Series	—	23,014	25,179	2,302	2,518
5 % Series	—	32,913	35,468	3,291	3,547
5.40% Series	—	140	210	14	21
		94,920	105,113	9,492	10,511
PURCHASE FUND					
7 % Series	\$300,000	132,077	135,137	13,208	13,514
7 ½% Series	\$500,000	231,009	232,288	23,101	23,229
8 ¾% Series	9,000 shares	330,000	330,000	33,000	33,000
7.44% Series	9,000 shares	300,000	265,000	30,000	26,500
7.30% Series	12,000 shares	400,000	—	40,000	—
		1,393,086	962,425	139,309	96,243
SINKING FUND					
10 % Series	12,000 shares	255,000	276,000	25,500	27,600
9.80% Series	8,000 shares	164,000	178,000	16,400	17,800
9¾ % Series	12,000 shares	279,000	300,000	27,900	30,000
		698,000	754,000	69,800	75,400
		2,186,006	1,821,538	218,601	182,154
Second preferred shares of \$25 each: Authorized — 5,000,000 cumulative redeemable preferred shares					
PURCHASE FUND					
\$2.36 Series	36,000 shares	1,280,000	1,280,000	32,000	32,000
				\$250,601	\$214,154

During 1978 400,000 7.30% first preferred shares and 35,000 7.44% first preferred shares were issued for cash of \$40,000,000 and \$3,500,000 respectively.

During 1978 the Company purchased for cancellation on the open market 3,060 first preferred shares of the 7% Series and 1,279 shares of the 7½% Series to meet the 1978 purchase fund requirements attached to such series and also purchased 10,193 first preferred shares of certain other series. The excess of the par value of the shares purchased over the cost thereof amounted to \$430,728 and is included in contributed surplus.

During 1978 the Company called, in addition to the mandatory sinking funds, 9,000 shares of the 10% Series, 6,000 shares of the 9.80% Series and 9,000 shares of the 9¾% Series under the optional sinking fund provisions. Each series of preferred shares is cumulative and redeemable at the option of the Company at par together with a premium not in excess of the annual dividend applicable to such series except as follows:

- 9.80% Series and 8¾% Series are not redeemable prior to January 1, 1982,
- 7.44% Series is not redeemable prior to December 21, 1982,
- 10% Series, 9¾% Series and \$2.36 Series are not redeemable prior to January 1, 1983 and,
- 7.30% Series is not redeemable prior to September 14, 1983.

Each annual purchase fund is non-cumulative. Each annual mandatory sinking fund is cumulative and the Company may call additional shares through the operation of a non-cumulative optional sinking fund.

(See accompanying summary of accounting policies and notes)

Summary of Accounting Policies

The financial statements of the Company have been prepared by management in accordance with generally accepted accounting principles. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations which have been made in the light of information available up to February 8, 1979. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the following accounting policies.

Regulation

The Company is engaged in the production and sale of electric energy in the Province of Alberta and is regulated by the Energy Resources Conservation Board pursuant to The Hydro and Electric Energy Act, (Alberta) and the Public Utilities Board pursuant to Part II of The Public Utilities Board Act, (Alberta). The Company and its hydro operations are also subject to The Provincial Water Power Regulations (Alberta). These acts and regulations cover such matters as rates, construction, operations and accounting.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, Kanelk Transmission Company Limited, Western Fly Ash Ltd. and Farm Electric Services Ltd. and its inactive subsidiaries, The Alberta Southern Coal Company Ltd. and The Calgary Water Power Company, Limited.

Kanelk Transmission Company Limited owns transmission facilities extending from the Company's hydro-electric plants on the Kananaskis River through British Columbia to the Crowsnest Pass in southern Alberta. Western Fly Ash Ltd. processes and distributes fly ash gathered at the Company's steam electric plants. Farm Electric Services Ltd. is a non-profit organization which organizes, constructs, operates and maintains, at cost, electric distribution systems owned by rural electrification co-operative associations.

Property Account

The land, buildings, plant and equipment are carried at cost. The Company provides for depreciation on a straight-line basis using various rates as set by the Public Utilities Board (Alberta) based on depreciation studies previously prepared by the Company which resulted in overall composite rates for 1978 of 3.57% (1977 — 3.54%). Details of the Company's assets are as follows:

	Depreciation Rates (1978)	1978 (thousands of dollars)	1977
Hydro production	2.11%	\$ 140,031	\$ 139,224
Thermal production including coal mines	3.30%-3.75%	560,643	407,335
Environmental control	3.30%	148,077	112,515
Transmission lines, substations and distribution systems	2.94%-3.75%	408,244	347,563
Other	various	61,179	53,370
Property under construction		141,849	216,579
		1,460,023	1,276,586
Less accumulated depreciation		250,120	211,135
		<u>\$1,209,903</u>	<u>\$1,065,451</u>

Allowance for Funds Used During Construction

The Company capitalizes an allowance for funds used during construction at its before tax cost of capital presently 10.78% (10.59% in 1977) as determined by the Public Utilities Board (Alberta).

Investment in AEC Power Ltd.

The investment in AEC Power Ltd. represents one third of the outstanding common shares (consisting of 50% of the voting shares) acquired at a cost of \$8,000,000. AEC Power Ltd. owns and operates the utilities plant which supplies electricity and steam on a cost of service basis to the Syncrude Project for production of synthetic crude oil from the Alberta oil sands. The utilities plant commenced operations on April 1, 1978. The Company accounts for its investment in AEC Power Ltd. on the equity method.

Financing Costs

Costs of financing are amortized by charges to expense as follows:

Debt issues — over the lesser of the remainder of the original life or the estimated average life of the respective issues.

Equity issues — over the lesser of 30 years or the estimated average life of the issue.

Gains or losses realized on the purchase of Company debt for sinking fund purposes are amortized over the remaining life of the issue.

These policies are in accordance with the method of determining the Company's cost of capital for regulatory purposes.

Translation of Foreign Currency

The Company has changed its method of translation of long term debt payable in foreign currencies to conform with the recommendations of the Canadian Institute of Chartered Accountants. These balances are now stated at the rate of exchange prevailing at the year end whereas they were previously carried at the rate in effect at the date of issue of such debt. The resulting adjustment is being amortized over the remaining life of the debt which is in accordance with the method used in determining the Company's cost of capital for regulatory purposes.

Unrealized foreign exchange losses of \$1,233,000 were amortized to income in 1978 and at December 31, 1978 \$16,764,000 were deferred and included in financing costs on the balance sheet.

Had this method been followed in 1977 there would have been no material effect on net income in that year.

Taxes on Income

The Company follows the tax allocation basis of accounting. Prior to 1973 deferred income taxes were recorded in the accounts as a result of the Company claiming for tax purposes depreciation and other items in amounts greater than those charged in the accounts.

In 1973 in accordance with a decision of the Public Utilities Board (Alberta) the Company ceased claiming for tax purposes depreciation and other expenses which would result in any additional deferral of income taxes with respect to its regulated utility operations.

Under the Public Utilities Income Tax Transfer Act (Canada) and enabling legislation passed by the Province of Alberta, 95% of Federal (proposed to be reduced to 50% after 1978) and 100% of Provincial corporation income taxes paid, attributable to the electric utility operations, are rebated to customers of the Company.

Customer Contributions

Contributions received from customers related to new service connections are credited to deferred revenue and are amortized to income over the expected terms of the revenue deficiencies. The composite rate of amortization is approximately 3% per annum.

Hydro Development Contribution

This account consists of the unamortized portion of a contribution of \$5,075,000 received from the Province of Alberta towards the cost of construction of the Bighorn Storage and Power Development Project completed in 1972 and is being amortized as a reduction of the related depreciation expense.

Notes to Consolidated Financial Statements

December 31, 1978

1. Reserve for Rate Adjustments

In accordance with submissions by the Company to the Public Utilities Board (Alberta), reassessments, if any, related to the determination of resource income for tax purposes and rate hearing costs as directed will be charged to this reserve. The Company has ceased amortization of this reserve pending direction from the Public Utilities Board (Alberta). During 1978 rate hearing costs in the amount of \$316,000 (after income tax) have been charged to this reserve.

2. Rates for Service

In December 1978 the Company applied for increased rates with effect from February 1979 which would result in estimated electric revenue of \$309,446,000 for 1979 and \$350,116,000 for 1980. Hearings in connection with this application are expected to commence in February, 1979.

3. Pension Plan

The Company has a retirement pension fund covering substantially all employees. Based on actuarial advice an unfunded past service obligation of approximately \$9,443,000 at December 31, 1977 is being funded and charged to operations in annual amounts of \$1,382,000.

4. Directors and Officers

The Board of Directors consists of eleven directors of whom two are officers of the Company. The aggregate remuneration paid during 1978 by the Company to the directors as directors was \$22,000 (1977 — \$20,000) and to the nine officers as officers was \$392,000 (1977 — ten officers, \$327,000). In addition, the Company paid \$108,000 (1977 — \$129,000) indirectly for the services of certain of the officers and directors.

	1978	1977	1976
Financial Record (thousands of dollars except for share amounts)			
Gross revenue from operations			
Electric	\$ 263,578	209,999	164,965
Water utility revenue	2,424	1,650	1,289
	266,002	211,649	166,254
Operating deductions	169,461	134,510	107,540
Operating income	96,541	77,139	58,714
Equity in net income of AEC Power Ltd.	1,543	1,343	824
Allowance for funds used during construction	17,138	15,928	15,161
Income before interest charges	115,222	94,410	74,699
Interest charges	41,212	37,415	32,153
Net income before extraordinary item	74,010	56,995	42,546
Gain on sale of property	—	—	—
Net income for the year	74,010	56,995	42,546
Average shareholders' investment (1)	590,031	468,571	347,850
Net income as a % of average shareholders' investment	12.5	12.2	12.2
Per common share			
Book value (year end)	32.73	29.31	26.87
Earnings	4.75	4.28	3.78
Dividends declared	2.30	2.05	1.90
Capital expenditures	185,259	198,574	207,520
Total assets	1,325,847	1,172,309	959,278
Capitalization (3)			
Long term debt	474,906	458,300	386,619
Preferred shares	250,601	214,154	159,038
Common shareholders' equity (1)	403,505	311,802	252,147
Total capitalization	1,129,012	984,256	797,804
Capitalization ratio % (3)			
Long term debt	42.1	46.6	48.5
Preferred shares	22.2	21.7	19.9
Common shareholders' equity (1)	35.7	31.7	31.6
	100.0	100.0	100.0
Interest coverage — times earned before income tax			
First mortgage bonds	8.49	8.41	6.33
All fixed charges	4.11	3.52	2.99
Statistical Record			
kWh Sales (millions)			
Residential, general service and small industry	1,767	1,540	1,397
Industry	3,637	3,320	3,076
Cities and towns under wholesale contracts	4,502	4,156	3,852
Farms	699	640	606
	10,605	9,656	8,931
Customers			
Served directly	227,947	212,709	198,558
Served indirectly through wholesale contracts	226,289	215,589	202,684
Generating capability (net MW)			
Hydro	800	800	800
Thermal	2,197	1,845	1,493
	2,997	2,645	2,293
Sources of primary energy (millions of kWh)			
Hydro	1,824	1,518	1,731
Thermal			
Gas	5	9	239
Coal	10,240	9,833	7,547
Purchases & (Exchanges)	(502)	(701)	294
	11,567	10,659	9,811

Note: (1) Includes reserves for rate adjustments.

(2) 1974 includes a non-recurring gain on sale of property of 29¢ per share.

(3) Excludes current portion of long term debt.

Year Summary

1975	1974	1973	1972	1971	1970	1969
27,494 1,112	101,402 1,047	85,150 973	69,173 853	62,238 764	56,200 648	50,453 600
28,606	102,449	86,123	70,026	63,002	56,848	51,053
84,044 44,562 —	69,691 32,758 —	56,639 29,484 —	45,210 24,816 —	40,872 22,130 —	39,174 17,674 —	34,639 16,414 —
11,692	4,142	3,760	3,718	2,051	4,256	2,235
56,254	36,900	33,244	28,534	24,181	21,930	18,649
26,793	19,572	16,940	14,395	11,300	10,244	8,072
29,461 —	17,328 1,628	16,304 —	14,139 —	12,881 —	11,686 —	10,577 —
29,461	18,956	16,304	14,139	12,881	11,686	10,577
52,928	198,288	151,004	122,926	115,911	109,806	104,350
11.6	9.6	10.8	11.5	11.1	10.6	10.1
23.95 3.40 1.60	21.80 2.68 (2) 1.25	21.01 2.62 1.10	19.49 2.38 1.00	18.11 2.18 1.00	16.33 1.97 .85	15.21 1.76 .80
60,519 59,615	120,209 601,564	66,836 492,335	66,245 438,976	49,895 377,313	49,945 339,558	40,867 297,617
22,971 06,087 78,427	255,197 87,557 133,785	213,723 58,023 117,210	221,228 18,045 108,730	172,483 18,046 101,030	161,017 27,000 85,745	133,530 27,000 79,866
07,485	476,539	388,956	348,003	291,559	273,762	240,396
53.2 17.4 29.4	53.5 18.4 28.1	55.0 14.9 30.1	63.5 5.2 31.3	59.2 6.2 34.6	58.8 9.9 31.3	55.6 11.2 33.2
100.0	100.0	100.0	100.0	100.0	100.0	100.0
4.99 2.66	4.02 2.63	4.24 2.54	3.63 2.36	3.83 2.63	3.90 2.87	3.82 3.24
1,256 2,929 3,640 573	1,112 3,030 3,270 540	1,001 2,982 2,914 486	887 2,569 2,741 463	786 2,169 2,482 429	703 1,884 2,336 385	633 1,696 1,998 362
8,398	7,952	7,383	6,660	5,866	5,308	4,689
84,740 90,978	171,977 182,601	164,136 159,960	153,118 152,509	146,193 144,833	139,925 137,004	135,161 140,283
800 1,141	800 1,141	800 1,141	800 855	680 860	680 860	680 574
1,941	1,941	1,941	1,655	1,540	1,540	1,254
1,415	1,715	1,513	1,559	1,194	1,211	1,371
337 6,953 487	309 6,737 (130)	449 5,636 591	356 5,368 147	296 5,031 52	478 3,870 434	446 3,370 32
9,192	8,631	8,189	7,430	6,573	5,993	5,219

A statistical summary providing additional financial information is available upon request to:
The Treasurer,
Calgary Power Ltd., Box 1900,
Calgary, Alberta T2P 2M1

The Company

Primary business	Generation and distribution of electricity
Service area	194,000 square kilometres (75,000 square miles) in the Province of Alberta and over 66% of Alberta's electric energy requirements
Net generating capability	2,997,000 kilowatts
Number of common and preferred shareholders	28,481 Canadian and 309 other
Percentage of Common and Preferred Shares held	99% Canadian and 1% other

Calgary Power Ltd., the largest investor-owned electric utility in Canada, provides electric service to one of the country's most prosperous and rapidly developing areas. Incorporated under the laws of Canada and Canadian owned throughout its history, the Company has been engaged in the production and distribution of electricity in the Province of Alberta since 1911. It supplies a diversified load within its service area of some 194,000 square kilometres (75,000 square miles) from the international boundary on the south to approximately 185 kilometres (115 miles) north of Edmonton. Over 66% of Alberta's electric energy requirements and over half of the population of the province are supplied by the Company.

In 1911 the Company completed its first generating plant, the Horseshoe Falls Hydro-electric Plant with a capacity of 13,900 kilowatts, to serve the City of Calgary and the Canada Cement Plant at Exshaw. Some communities had no electric power and others were supplied with high cost electricity from small isolated plants that operated only during specified hours. In the mid 1920's the Company began an expansion program to provide central station service 24 hours a day to these communities. The expansion program

has continued over the years and the Company now supplies some 580 cities, towns, villages and hamlets, as well as farms and other customers in the surrounding rural areas. At the end of 1978 the Company served 227,947 customers directly and an additional 226,289 customers indirectly through wholesale power contracts.

The Company now owns and operates 13 hydro-electric plants and two steam electric plants with a total net generating capability of almost 3 million kilowatts. An additional 350,000 kilowatts is being added at the Sundance Plant and preliminary work has commenced on a third steam electric plant known as Keephills. The existing generating capability is made up of 800,000 kilowatts of hydro and 2,197,000 kilowatts of thermal generation. Operations of the hydro and thermal plants are combined to achieve minimum overall cost of energy. The large coal-fueled steam electric units supply the base or continuous load, while the hydro-electric plants are operated mainly to supply the peak load and the balance of the energy requirements. The Company has mined its own coal to meet most of its fuel requirements since 1962 when oil and gas, valuable feedstock for chemical processing, were rapidly becoming premium fuels which would soon become too expensive and scarce for power generation. The Company owns and operates two large coal mines for its primary fuel supply and mined about 6.4 million tonnes (7.0 million tons) in 1978.

The power system is highly automated. 13 hydro-electric plants comprising 26 unattended generating units are operated remotely from a control centre 72 kilometres (45 miles) west of Calgary. The control centre handles load dispatching for all the generating plants, directs the operation of the main transmission system and has remote control of the majority of switching points.

The Company owns approximately 44,500 kilometres (27,650 miles) of transmission and distribution lines. For efficiency and reliability the system is interconnected with all other major power plants in Alberta and with the system of British Columbia Hydro and Power Authority. Through the interconnection with B.C. Hydro the Company is also indirectly connected with the power pool of electric utilities operating in the northwestern United States.

Water utility systems in three communities are owned and operated by the Company and a fourth system is operated on behalf of the county. Gross revenue from water utility operations amounts to less than 1% of total revenue.

At the end of 1978 staff positions including Farm Electric Services Ltd. totalled 2,163. In addition the Company provided employment during the summer for 156 university, technical and high school students.

BRITISH COLUMBIA

SASKATCHEWAN

ALBERTA CANADA

CALGARY POWER LTD.

MAIN TRANSMISSION LINES

HYDRO-ELECTRIC PLANTS

THERMAL ELECTRIC PLANTS



U.S.A.

CALGARY POWER LTD.

Directors

R. G. BLACK, Q.C.*

Calgary, Alberta
Partner, Jones, Black
& Company

J. B. CROSS

Okotoks, Alberta
Rancher

D. D. DUNCAN, Q.C.

Winterburn, Alberta
Partner, Duncan & Craig

A. S. GORDON

Westmount, Quebec
Consultant, Merrill Lynch,
Royal Securities Limited

A. W. HOWARD*

Calgary, Alberta
Chairman of the Board

J. W. MADILL

Calgary, Alberta
General Manager
Alberta Wheat Pool

W. J. McCARTHY

Town of Mount Royal, Quebec
Senior Vice-President, Finance
Sun Life Assurance Company of Canada

H. J. S. PEARSON

Edmonton, Alberta
Chairman of the Board and
Chief Executive Officer
Century Sales & Service Limited

R. F. PHILLIPS*

Calgary, Alberta
President and
Chief Executive Officer
Home Oil Company Limited

W. J. SMITH

Montreal, Quebec
Group Vice-President, Montreal
Engineering Company, Limited

M. M. WILLIAMS

Calgary, Alberta
President

Officers

A. W. HOWARD

Chairman of the Board

M. M. WILLIAMS

President

T. E. CARDELL

Vice-President, Plant
Engineering and Construction

W. L. FRASER

Vice-President, Engineering
and Planning

K. F. McCREADY

Vice-President, Administration

H. G. SCHAEFER

Vice-President, Finance

E. W. SMITH

Vice-President, Operations
and Customer Services

F. A. R. McKINNON

Treasurer and Director
of Finance

J. W. NEWBY

Secretary

R. L. McCRIMMON

Assistant Secretary

F. V. KAY

Assistant Treasurer

Officials

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Assistant Vice-President, Planning

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Director of Technical Services

G. A. HADLINGTON

Director of Generation Projects
Management

M. J. HALPEN

Director of Administrative Services

D. B. PORTER

Director of Public Affairs

W. SAPONJA

Director of Power Production

A. H. WAKELYN

Director of Accounting

*Member of Audit Committee

Corporate Information

Head Office

110 - 12th Avenue South West, Calgary, Alberta

Postal Address:

Box 1900, Calgary, Alberta T2P 2M1

Solicitors

JONES, BLACK & COMPANY, Calgary

DUNCAN & CRAIG, Edmonton

Auditors

CLARKSON, GORDON & CO., Chartered Accountants, Calgary

Transfer Agents and Registrars

For Preferred Shares:

CROWN TRUST COMPANY, Vancouver, Calgary, Winnipeg, Toronto, Montreal

Montreal Trust Company, Regina, as Agent of Crown Trust Company

For Common Shares:

MONTREAL TRUST COMPANY, Vancouver, Calgary, Edmonton, Regina, Winnipeg, Toronto, Montreal

Trustees and Registrars

For First Mortgage Bonds:

MONTREAL TRUST COMPANY, Vancouver, Calgary, Toronto, Montreal

For Debenture Issues:

THE ROYAL TRUST COMPANY, Vancouver, Calgary, Toronto, Montreal

For Dividend Reinvestment and Share Purchase Plan:

MONTREAL TRUST COMPANY, Calgary



**CALGARY
POWER**

AR09

INTERIM REPORT

June 30, 1978



File
**CALGARY
POWER**

TO THE SHAREHOLDERS

Gross revenue from operations for the six months ended June 30, 1978 was \$133,376,000, an increase of 25.9% from the \$105,931,000 reported for the six months ended June 30, 1977. Earnings applicable to common shares for the six months were \$2.88 per common share, up from \$2.43 per common share in 1977, reflecting increased investment and the colder weather early in 1978. We would caution shareholders in their interpretation of these results, as they are not indicative of the expected results for the full year 1978. In 1978 the Company faces some significant cost increases in the second half of the year related to the commissioning of Sundance #5 Unit. A second factor was the issue on June 14, 1978 of 1,540,000 common shares which will result in a greater number of average common shares outstanding in the latter half of the year. In the October 1976 rate application, the Company had sought rate increases in the second half of 1978 anticipating higher costs. However, the staging of the rate increases was changed and when combined with the colder weather conditions early in 1978 produced revenues and earnings in the first half of 1978 that will be relatively higher than the second half of the year. The Company expects however, that its earnings will be in the range of \$4.60 - \$4.70 per share for the calendar year 1978.

The public offering of common shares in June was well received and successfully completed with 1,540,000 shares being sold for \$57,750,000. These proceeds are being used to finance the expansion of our facilities to meet the ever growing need for electric power in Alberta. The number of shareholders increased by about 28% with the number of Alberta shareholders increasing by nearly 50% as a result of this offering.

We were pleased with the reception being accorded to the Dividend Reinvestment and Share Purchase Plan by our shareholders as indicated by the reinvestment of \$1,442,000 on July 1, 1978 by a total of 3,118 participants. New shareholders who are not aware of the Plan, and other shareholders who are not currently participating and wish to do so, should write the Treasurer at Box 1900, Calgary, Alberta for further particulars about the Plan.

CALGARY POWER LTD.

August 9, 1978

CALGARY POWER LTD.

Consolidated Statement of Income

(thousands of dollars)

	6 Months Ended June 30		12 Months Ended June 30	
	1978	1977	1978	1977
Gross revenue from operations				
Electric (Note 1)	\$132,318	\$105,156	\$237,161	\$191,050
Water utilities	1,058	775	1,933	1,500
	<u>133,376</u>	<u>105,931</u>	<u>239,094</u>	<u>192,550</u>
Operating deductions:				
Operating expenses	27,377	22,763	53,438	44,316
Fuel and purchased power	5,936	2,820	10,478	9,551
Taxes, other than taxes on income	4,488	3,935	8,312	7,255
Depreciation	17,961	15,831	35,298	29,523
Taxes on income	28,616	20,583	45,430	31,412
	<u>84,378</u>	<u>65,932</u>	<u>152,956</u>	<u>122,057</u>
Operating income	<u>48,998</u>	<u>39,999</u>	<u>86,138</u>	<u>70,493</u>
Allowance for funds used during construction by component (Note 2)				
Debt	4,224	3,024	7,481	6,254
Preferred equity	2,070	1,341	3,513	2,773
Common equity	4,980	3,305	8,538	6,835
	<u>11,274</u>	<u>7,670</u>	<u>19,532</u>	<u>15,862</u>
Less income tax reduction for interest charge capitalized	—	—	—	1,518
Total allowance for funds used during construction ..	<u>11,274</u>	<u>7,670</u>	<u>19,532</u>	<u>14,344</u>
Equity in net income of AEC Power Ltd.	769	656	1,456	1,276
Income before interest charges	<u>61,041</u>	<u>48,325</u>	<u>107,126</u>	<u>86,113</u>
Interest charges:				
Interest on first mortgage bonds	8,497	5,983	15,257	12,329
Interest on other long term debt	11,933	10,583	22,629	20,715
Other interest (net)	121	1,343	2,171	1,202
	<u>20,551</u>	<u>17,909</u>	<u>40,057</u>	<u>34,246</u>
Net income for the period	<u>40,490</u>	<u>30,416</u>	<u>67,069</u>	<u>51,867</u>
Dividends on preferred shares adjusted for accruals ..	9,270	7,569	17,653	13,430
Earnings applicable to common shares	<u>\$ 31,220</u>	<u>\$ 22,847</u>	<u>\$ 49,416</u>	<u>\$ 38,437</u>
Average common shareholders' investment	<u>\$329,300</u>	<u>\$258,000</u>	<u>\$305,100</u>	<u>\$251,000</u>
Average common shares outstanding	10,826,000	9,398,000	10,314,000	9,315,000
Basic earnings per common share	\$2.88	\$2.43	\$4.79	\$4.13

(Subject to year end adjustments and audit)

Notes:

1. The Company has operated under interim electric rate schedules since January 1, 1977 pending a final determination of rates by class of consumer which is expected during the third quarter of 1978. The results for the six months ended June 30, 1978 should not be taken as indicative of the expected results for the full year of 1978 due to colder weather conditions early in 1978, additional cost of new generating plant being commissioned and the greater number of average common shares to be outstanding in the latter half of the year.
2. Effective January 1, 1977 the Company commenced capitalizing an allowance for funds used during construction at its before tax cost of capital of 10.59 % in 1977 and 10.776 % in 1978 as found by the Public Utilities Board (Alberta). Concurrently, the Company ceased deducting interest capitalized in calculating its corporate income tax. Prior to 1977, the Company followed the practice of capitalizing an allowance for funds used during construction at its after-tax cost of capital (7 % in 1976) and deducted all interest charges in calculating corporate income taxes.
3. The dividends for the quarter ended September 30, 1978 on preferred and common shares, were declared on May 5, 1978, payable October 1, 1978.

CALGARY POWER LTD.

Consolidated Statement of Changes in Financial Position (thousands of dollars)

	6 Months Ended June 30	
	1978	1977
SOURCE OF FUNDS		
From operations:		
Net income for the period	\$ 40,490	\$30,416
Add (deduct) items not involving funds —		
Depreciation	17,961	15,831
Allowance for equity funds used during construction	(7,050)	(4,646)
Equity in net income of AEC Power Ltd.	(769)	(656)
Funds provided from operations	50,632	40,945
Issue of common shares	59,763	632
Issue of first preferred shares	3,500	33,000
Issue of long term debt:		
Notes payable — secured	8,042	7,985
Other	1,782	341
Customer contributions	5,662	5,698
Other	1,126	995
	<u>\$130,507</u>	<u>\$89,596</u>
APPLICATION OF FUNDS		
Capital expenditures	\$ 92,477	\$92,212
Less allowance for equity funds used during construction	7,050	4,646
	85,427	87,566
Dividends on preferred shares (Note 3)	13,946	7,896
Dividends on common shares (Note 3)	19,090	9,398
Financing costs	2,766	1,164
Reduction of preferred shares	2,964	1,809
Retirement of long term debt	6,827	5,454
Increase in bank loan and short term notes	(3,701)	(27,634)
Decrease in working capital deficiency exclusive of changes in bank loan and short term notes and current portion of long term debt	3,188	3,943
	<u>\$130,507</u>	<u>\$89,596</u>

(Subject to year end adjustments and audit)